

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

MEMORANDUM

TO: Norwood Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: November 21, 2016

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made on August 1 of each fiscal year. The schedule is effective in FY17 (since the amount under the prior schedule was maintained in FY17) and is acceptable under Chapter 32.

The revised schedule reflects a reduction in the investment return assumption from 8.25% to 7.75%. The schedule also reflects the adoption of a fully generational mortality assumption and the adoption of other demographic assumptions based on a recent experience study performed by your actuary. Although the revised demographic assumptions are less conservative than the current standard PERAC assumptions, which we continue to believe are reasonable, we have not performed a recent experience analysis for local systems to compare our findings with the results of your study.

In our prior memoranda dated November 7, 2013 and December 2, 2014, we indicated that we had concerns about the salary increase assumption. Once again, this valuation used a salary increase assumption of 3.0%. We expect over the long term that this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities. In addition, page 3 of the valuation report notes there was a loss of approximately \$660,000 due to salary increases in this valuation, meaning the actuarial liability was greater than expected due to actual pay increases over the two year period.

Although we are approving this schedule, we note that the FY18 and FY19 amounts (as well as subsequent years) are less than the amounts for these years in the prior schedule. The FY18 appropriation under the revised schedule is approximately \$63,000 less than that of the prior schedule. The FY19 difference is \$90,000. By reducing the budgeted amounts from the prior



schedule, the plan may be forced to increase its level of appropriation in future years if there are investment or actuarial losses or further reductions in the investment return assumption.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

JEC/jrl

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Appropriation Forecast

Fiscal Year		Employee	Employer	Amortization	Employer	Employer	
Ending	Payroll*	Contribution	Normal Cost with Interest	Payments with Interest	Total Cost with Interest	Total Cost % of Payroll	Funded Ratio %**
2017	\$29,768,676	\$2,548,123	\$751,783	\$3,799,614	\$4,551,397	15.3	79.1
2018	\$30,959,423	\$2,678,652	\$751,884	\$4,100,971	\$4,852,855	15.7	80.2
2019	\$32,197,800	\$2,815,547	\$750,790	\$4,281,029	\$5,031,819	15.6	81.4
2020	\$33,485,712	\$2,959,107	\$748,405	\$4,469,189	\$5,217,594	15.6	82.7
2021	\$34,825,140	\$3,109,648	\$744,629	\$4,566,120	\$5,310,749	15.2	84.1
2022	\$36,218,146	\$3,267,497	\$739,353	\$4,771,596	\$5,510,949	15.2	85.5
2023	\$37,666,872	\$3,432,998	\$732,463	\$4,986,318	\$5,718,781	15.2	87.1
2024	\$39,173,547	\$3,606,511	\$723,840	\$5,210,702	\$5,934,542	15.1	88.8
2025	\$40,740,489	\$3,788,413	\$713,354	\$5,445,184	\$6,158,538	15.1	90.7
2026	\$42,370,108	\$3,979,097	\$700,872	\$5,690,217	\$6,391,089	15.1	92.7
2027	\$44,064,913	\$4,178,974	\$686,249	\$5,946,277	\$6,632,526	15.1	94.9
2028	\$45,827,509	\$4,388,474	\$669,336	\$6,213,859	\$6,883,195	15.0	97.4
2029	\$47,660,609	\$4,608,048	\$649,971	(\$0)	\$649,971	1.4	100.0
2030	\$49,567,034	\$4,838,167	\$627,986	(\$0)	\$627,986	1.3	100.0
2031	\$51,549,715	\$5,079,322	\$603,203	(\$0)	\$603,203	1.2	100.0
2032	\$53,611,704	\$5,332,028	\$575,432	(\$0)	\$575,432	1.1	100.0
2033	\$55,756,172	\$5,596,824	\$544,474	(\$0)	\$544,474	1.0	100.0
2034	\$57,986,419	\$5,874,272	\$510,119	(\$0)	\$510,119	0.9	100.0
2035	\$60,305,875	\$6,164,962	\$472,144	(\$0)	\$472,144	0.8	100.0
2036	\$62,718,111	\$6,469,507	\$430,316	(\$0)	\$430,316	0.7	100.0
2037	\$65,226,835	\$6,788,553	\$384,385	(\$0)	\$384,385	0.6	100.0
2038	\$67,835,908	\$7,122,770	\$334,092	(\$0)	\$334,092	0.5	100.0
2039	\$70,549,345	\$7,407,681	\$347,455	(\$0)	\$347,455	0.5	100.0
2040	\$73,371,318	\$7,703,988	\$361,354	(\$0)	\$361,354	0.5	100.0
2041	\$76,306,171	\$8,012,148	\$375,808	(\$0)	\$375,808	0.5	100.0
2042	\$79,358,418	\$8,332,634	\$390,840	(\$0)	\$390,840	0.5	100.0
2043	\$82,532,755	\$8,665,939	\$406,474	(\$0)	\$406,474	0.5	100.0
2044	\$85,834,065	\$9,012,577	\$422,732	(\$0)	\$422,732	0.5	100.0
2045	\$89,267,428	\$9,373,080	\$439,642	(\$0)	\$439,642	0.5	100.0
2046	\$92,838,125	\$9,748,003	\$457,227	(\$0)	\$457,227	0.5	100.0
2047	\$96,551,650	\$10,137,923	\$475,517	(\$0)	\$475,517	0.5	100.0
2048	\$100,413,716	\$10,543,440	\$494,537	(\$0)	\$494,537	0.5	100.0

* Calendar basis

** Beginning of Fiscal Year